

TRADEMARK ANTICOUNTERFEITING ACT OF 1998

JULY 28, 1998.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. COBLE, from the Committee on the Judiciary,
submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 3891]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 3891) to amend the Trademark Act of 1946 to prohibit the unauthorized destruction, modification, or alteration of product identification codes, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Trademark Anticounterfeiting Act of 1998”.

SEC. 2. PROHIBITION AGAINST UNAUTHORIZED ALTERATION OF PRODUCT IDENTIFICATION CODES.

(a) IN GENERAL.—Title VIII of the Act entitled “An Act to provide for the registration and protection of trade-marks used in commerce, to carry out the provisions of certain international conventions, and for other purposes,” approved July 5, 1946 (commonly referred to as the “Lanham Act” and the “Trademark Act of 1946”) is amended by inserting after section 43 (15 U.S.C. 1125) the following:

“UNAUTHORIZED MODIFICATIONS OF PRODUCT IDENTIFICATION CODES

“SEC. 43A. (a) DEFINITIONS.—In this section—

“(1) the term ‘consumer’—

“(A) means—

“(i) the ultimate user or purchaser of a good; or

“(ii) any hotel, restaurant, or other provider of services that must remove or alter the container, label, or packaging of a good in order to make the good available to the ultimate user or purchaser; and

“(B) does not include any retailer or other distributor who acquires a good for resale;

“(2) the term ‘good’ means any article, product, or commodity that is customarily produced or distributed for sale, rental, or licensing in interstate or foreign commerce, and any container, packaging, label, or component thereof;

“(3) the term ‘manufacturer’ includes the original manufacturer of a good and a duly appointed agent or representative of that manufacturer acting within the scope of its agency or representation;

“(4) the term ‘product identification code’—

“(A) includes any number, letter, symbol, marking, date (including an expiration date), code, software, or other technology that is affixed to or embedded in any good, by which the manufacturer of the good may trace the good back to a particular production lot or batch or date of removal, or otherwise identify the source of the good, the date of manufacture, the date of expiration, or other comparable critical data; and

“(B) does not include copyright management information conveyed in connection with copies or phonorecords of a copyrighted work or any performance or display of a copyrighted work;

“(5) the term ‘Universal Product Code’ refers to the multidigit bar code and number representing goods in retail applications; and

“(6) the term ‘value’ means the face, par, or market value, whichever is the greatest.

“(b) PROHIBITED ACTS.—Except as otherwise authorized by Federal law, it shall be unlawful for any person, other than the consumer or the manufacturer of a good, knowingly and without authorization of the manufacturer—

“(1) to directly or indirectly alter, conceal, remove, obliterate, deface, strip, or peel any product identification code affixed to or embedded in that good;

“(2) to directly or indirectly affix or embed a product identification code to or in that good which is intended by the manufacturer for a different good, such that the code no longer accurately identifies the source of the good;

“(3) to directly or indirectly affix to or embed in that good any number, letter, symbol, marking, date, code, or other technology intended to simulate a product identification code; or

“(4) to import, export, sell, distribute, or broker that good, the product identification code for which has been altered, concealed, removed, obliterated, defaced, stripped, peeled, affixed, or embedded in violation of paragraph (1) or (2), or that bears an unauthorized number, letter, symbol, marking, date, or other code in violation of paragraph (3).

“(c) APPLICABILITY.—The prohibitions set forth in subsection (b) shall apply to product identification codes (or simulated product identification codes in a case to

which subsection (b)(3) applies) affixed to, or embedded in, any good held for sale or distribution in interstate or foreign commerce or after shipment therein.

“(d) EXCLUSION.—

“(1) UPC CODES.—Nothing in this section prohibits a retailer from affixing a Universal Product Code or other electronic pricing code to a good if that code does not (or can be removed so as not to) permanently alter, conceal, remove, obliterate, deface, strip, or peel any product identification code.

“(2) REPACKAGING FOR RESALE.—(A) Nothing in this section prohibits a distributor from removing an article, product, or commodity of retail sale from a shipping container and placing such article, product, or commodity in another shipping container for purpose of resale in a quantity different from the quantity originally provided by the manufacturer or from replacing a damaged shipping container, if, except as provided in paragraph (1), such article, product, or commodity of retail sale retains its original product identification code, without any obstruction or alteration, and if—

“(i) such distributor is registered with all applicable Federal and State agencies;

“(ii) such distributor repackages the article, product, or commodity in full compliance with all applicable State and Federal laws and regulations; and

“(iii) the act of repackaging does not result in a prohibited act under section 301 of the Federal Food, Drug, and Cosmetic Act or violate any other applicable State or Federal law or regulation.

“(B) As used in this paragraph, the term ‘shipping container’ means—

“(i) a container or wrapping used for the transportation of any article, product, or commodity in bulk or in quantity to manufacturers, packers, or processors, or to wholesale or retail distributors thereof; and

“(ii) containers or wrappings used by retailers to ship or deliver any article, product, or commodity to retail customers, if such containers and wrappings bear no printed matter pertaining to any particular article, product, or commodity.

“(e) CRIMINAL PENALTIES.—Any person who willfully violates this section shall be punished as provided in section 1365A of title 18.

“(f) CIVIL REMEDIES.—

“(1) IN GENERAL.—Any person who is injured by a violation of this section, or threatened with such injury, may bring a civil action in an appropriate United States district court against the alleged violator.

“(2) INJUNCTIONS AND IMPOUNDING AND DISPOSITION OF GOODS.—In any action under paragraph (1), the court may—

“(A) grant 1 or more temporary, preliminary, or permanent injunctions on such terms as the court determines to be reasonable to prevent or restrain the violation;

“(B) at any time while the action is pending, order the impounding, on such terms as the court determines to be reasonable, of any good that is in the custody or control of the alleged violator and that the court has reasonable cause to believe was involved in the violation; and

“(C) as part of a final judgment or decree—

“(i) order the destruction of any good involved in the violation that is in the custody or control of the violator or that has been impounded under subparagraph (B); or

“(ii) if the court determines that any good impounded under subparagraph (B) is not unsafe or a hazard to health, dispose of the good by delivery to such Federal, State, or local government agencies as, in the opinion of the court, have a need for such good, or by gift to such charitable or nonprofit institutions as, in the opinion of the court, have a need for such good, if such disposition would not otherwise be in violation of law, and if the manufacturer consents to such disposition and is given the opportunity to reapply a product identification code to the good.

“(3) DAMAGES.—

“(A) IN GENERAL.—Subject to subparagraph (B), in any action under paragraph (1), the plaintiff shall be entitled to recover the actual damages suffered by the plaintiff as a result of the violation, and any profits of the violator that are attributable to the violation and are not taken into account in computing the actual damages. In establishing the violator’s profits, the plaintiff shall be required to present proof only of the violator’s sales, and the violator shall be required to prove all elements of cost or deduction claimed.

“(B) STATUTORY DAMAGES.—In any action under paragraph (1), the plaintiff may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits described in subparagraph (A), an award of statutory damages for any violation under this section in an amount equal to—

“(i) not less than \$500 and not more than \$100,000, with respect to each type of goods involved in the violation; and

“(ii) if the violation threatens the health and safety of the public, as determined by the court, not less than \$5,000 and not more than \$1,000,000, with respect to each type of goods involved in the violation.

“(4) COSTS AND ATTORNEY’S FEES.—In any action under paragraph (1)—

“(A) in addition to any damages recovered under paragraph (3), a prevailing plaintiff may recover the full costs of the action; and

“(B) the court, in its discretion, may also award reasonable attorney fees to the prevailing party.

“(5) REPEAT VIOLATIONS.—

“(A) TREBLE DAMAGES.—In any case in which a person violates this section within 3 years after the date on which a final judgment was entered against that person for a previous violation of this section, the court, in an action brought under this subsection, may increase the award of damages for the later violation to not more than 3 times the amount that would otherwise be awarded under paragraph (3), as the court considers appropriate.

“(B) BURDEN OF PROOF.—A plaintiff that seeks damages as described in subparagraph (A) shall bear the burden of proving the existence of the earlier violation.

“(6) LIMITATIONS ON ACTIONS.—No civil action may be commenced under this section later than 3 years after the date on which the claimant discovers the violation.

“(7) INNOCENT VIOLATIONS.—In any action under paragraph (1), the court in its discretion may reduce or remit the total award of damages in any case in which the violator sustains the burden of proving, and the court finds, that the violator was not aware and had no reason to believe that the acts of the violator constituted a violation.

“(g) ENFORCEMENT.—The Attorney General shall enforce this section.”.

(b) CONFORMING AMENDMENT.—The heading for title VIII of the Act of July 5, 1946, is amended by striking “AND DILUTION” and inserting “DILUTION, AND ADULTERATION OF PRODUCT CODES”.

SEC. 3. CRIMINAL PENALTIES.

(a) IN GENERAL.—Chapter 65 of title 18, United States Code, is amended by inserting after section 1365 the following:

“§ 1365A. Unauthorized modification of product identification codes

“(a) CRIMINAL PENALTIES.—Any person who willfully violates section 43A of the Act of July 5, 1946 (commonly referred to as the “Trademark Act of 1946”) shall—

“(1) be fined under this title, imprisoned not more than 1 year, or both;

“(2) if the total retail value of the good or goods involved in the violation is greater than \$5,000, be fined under this title, imprisoned not more than 5 years, or both;

“(3) if the person acts with reckless disregard for the risk that the health or safety of the public would be threatened and under circumstances manifesting extreme indifference to such risk, and the violation threatens the health or safety of the public, be fined under this title, imprisoned not more than 10 years, or both;

“(4) if the person acts with reckless disregard for the risk that another person will be placed in danger of death or bodily injury and under circumstances manifesting extreme indifference to such risk and—

“(A) serious bodily injury to any individual results, be fined under this title, imprisoned not more than 20 years, or both; or

“(B) death of an individual results, be fined under this title, imprisoned for any term of years or for life, or both; and

“(5) with respect to any second or subsequent violation, be subject to twice the maximum term of imprisonment that would otherwise be imposed under this subsection, fined under this title, or both.

“(b) INJUNCTIONS AND IMPOUNDING, FORFEITURE, AND DISPOSITION OF GOODS.—

“(1) INJUNCTIONS AND IMPOUNDING.—In any prosecution under this section, upon motion of the United States, the court may—

“(A) grant 1 or more temporary, preliminary, or permanent injunctions on such terms as the court determines to be reasonable to prevent or restrain the alleged violation; and

“(B) at any time during the proceedings, order the impounding, on such terms as the court determines to be reasonable, of any good that is in the custody or control of the defendant and that the court has reasonable cause to believe was involved in the violation.

“(2) FORFEITURE AND DISPOSITION OF GOODS.—Upon conviction of any person of a violation of this section, the court shall—

“(A) order the forfeiture of any good involved in the violation that is in the custody or control of the defendant or that has been impounded under paragraph (1)(B); and

“(B) either—

“(i) order the destruction of each good forfeited under subparagraph (A); or

“(ii) if the court determines that any good forfeited under subparagraph (A) is not unsafe or a hazard to health, dispose of the good by delivery to such Federal, State, or local government agencies as, in the opinion of the court, have a need for such good, or by gift to such charitable or nonprofit institutions as, in the opinion of the court, have a need for such good, if such disposition would not otherwise be in violation of law and if the manufacturer consents to such disposition and is given the opportunity to reapply a product identification code to the good.”.

(b) CONFORMING AMENDMENT.—The table of sections for chapter 65 of title 18, United States Code, is amended by inserting after the item relating to section 1365 the following:

“1365A. Unauthorized modification of product identification codes.”.

SEC. 4. ATTORNEY GENERAL REPORTING REQUIREMENTS.

Section 2320(f) of title 18, United States Code, is amended—

(1) by inserting “unauthorized modification of product identification codes under section 1365A,” after “involve”; and

(2) in paragraph (4), by inserting “1365A,” after “sections”.

PURPOSE AND SUMMARY

The purpose of H.R. 3891, the “Trademark Anticounterfeiting Act of 1998,” is to safeguard the ability of manufacturers to control the use of their products with which valuable marks are associated by protecting the integrity of corresponding “product identification codes” contained in product packaging.

BACKGROUND AND NEED FOR THE LEGISLATION

Manufacturers often require distributors to comply with detailed instructions as to how and where their product will be packaged, shipped, and sold. This is done for commercial or safety reasons, or both.

For example, a brand manufacturer of perfume might want distributors to ship its product in green bottles to Latin America, and in blue bottles to the United States. The U.S.-bound bottles would retail at a higher price and the blue packaging would, commercially speaking, project greater cachet in the collective mind of consumers. Under this scenario, the manufacturer would not want blue bottles diverted to Latin America where they might sell for less than the U.S. price but greater than that for (Latin market) green bottles.

An illustration of why a manufacturer would want to control the “routing” of its product for safety reasons might involve expiration dates which are affixed to perishable items, such as pharmaceuticals or food. Any attempt to change or remove an expiration

date for sale in a different market or to preserve shelf life in the manufacturer's designated market could lead to illness or death. Similarly, forensic investigator also rely on product coding when performing their work to solve crimes, including those related to terrorist acts.

While existing law has enabled authorities to prosecute individuals who engage in trademark counterfeiting, counterfeiters have responded by becoming more organized, sophisticated, and aggressive. A favored tactic which they now employ is to form alliances among themselves, unscrupulous diverters at the wholesale or distributor level, and organized retail thieves. The alliances are symbiotic, since counterfeiters need the diverters who provide "cover" in the event an inappropriate diversion scheme is exposed. Specifically, a counterfeiter will "salt" a diverter's inventory with counterfeit goods, then argue that it never intended to defraud consumers as diversion is technically legal. Diverters, on the other hand, need the counterfeiters, particularly in cases of product decoding, because successful diversion often necessitates an effort to manipulate the product code and, occasionally, to counterfeit the product coding. As such, H.R. 3891 is a necessary complement to existing federal law on this subject.

HEARINGS

The Committee's Subcommittee on Courts and Intellectual Property held a hearing on H.R. 3891 on May 21, 1998. Testimony was received from four witnesses, representing four organizations.

COMMITTEE CONSIDERATION

On June 4, 1998, the Subcommittee on Courts and Intellectual Property met in open session and ordered reported the bill H.R. 3891, as amended, by voice vote, a quorum being present. On July 16, 1998, the Committee met in open session and ordered reported favorably the bill H.R. 3891 with an amendment, by voice vote, a quorum being present.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Reform and Oversight were received as referred to in clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 2(1)(3)(C) of rule XI of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 3891, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 403 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 22, 1998.

Hon. HENRY J. HYDE,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3891, the Trademark Anticounterfeiting Act of 1998.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susanne S. Mehlman, who can be reached at 226-2860.

Sincerely,

JUNE E. O'NEILL, *Director.*

Enclosure.

cc: Hon. John Conyers, Jr.,
Ranking Minority Member.

H.R. 3891—Trademark Anticounterfeiting Act of 1998

CBO estimates that enacting H.R. 3891 would not result in any significant cost to the federal government. Enactment of H.R. 3891 could affect direct spending and receipts, so pay-as-you-go procedures would apply to the bill. However, CBO estimates that any impact on direct spending and receipts would not be significant. H.R. 3891 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Enacting H.R. 3891 would make it a federal crime to alter or remove product identification codes on any goods or packaging sold in interstate or foreign commerce. Under current law, only certain goods, such as pharmaceuticals and medical devices, are protected from code tampering. The bill also would provide for criminal penalties, imprisonment, the seizure of certain goods, and civil remedies for those injured by such tampering.

Because those prosecuted and convicted of altering a product identification code could be subject to fines, the government might collect additional fines if H.R. 3891 is enacted. Collections of such fines are recorded in the budget as governmental receipts (revenues), which are deposited in the Crime Victims Fund and spent in the following year. Any such collections and spending are likely to be negligible, however, because few cases are likely to arise under this bill. H.R. 3891 would also result in little or no change in the amount of receipts deposited in the Assets Forfeiture Fund.

Finally, CBO estimates that any additional burden placed on the federal court system or the federal prison system would not result

in any additional significant costs. Any additional costs would be subject to the availability of appropriated funds.

The CBO staff contact for this estimate is Susanne S. Mehlman, who can be reached at 226–2860. This estimate was approved by Paul N. Van de Water, Assistant Director for Budget Analysis.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to rule XI, clause 2(1)(4) of the Rules of the House of Representatives, the Committee finds the authority for this legislation in Article One, clause eight, section eight of the Constitution.

SECTION-BY-SECTION ANALYSIS AND DISCUSSION

GENERAL DISCUSSION

Representative Goodlatte introduced H.R.3891, the “Trademark Anticounterfeiting Act of 1998,” on May 19, 1998. It is intended to safeguard the ability of a brand manufacturer to control, to some extent, the use of its product by protecting the integrity of corresponding “product identification codes.” These codes—a number, letter, symbol, or expiration marking that is affixed to a good—enable the manufacturer to trace a product back to its particular production lot, batch, or date of removal.

SECTIONAL ANALYSIS

Section One. Short Title. Section One contains the short title of the bill, the “Trademark Anticounterfeiting Act of 1998.”

Section Two. Alteration of Product Identification Codes. Section Two creates a new § 43A of the Lanham Act¹ which proscribes the unauthorized modification of product identification codes. More specifically, the section specifies that no person, other than the consumer or manufacturer of a good, may knowingly and without authorization of the manufacturer tamper with a product identification code affixed to that good. Examples of tampering include alteration, concealment, removal, or obliteration.

In addition, the section forbids anyone, knowingly and without authorization of the manufacturer, to switch a product identification code from one good to another; to produce fake product identification codes; or to sell, import, distribute, or broker a good that bears a tainted product identification code.

The new § 43A(d) of the Lanham Act created in Section Two establishes certain exclusions that are designed to protect retailers or distributors who repackage certain goods for resale. First, this provision enables a retailer or distributor to affix a Universal Product Code (UPC) or other electronic pricing code to a good so long as it does not (or can be removed so as not to) permanently alter, conceal, remove, obliterate, deface, strip, or peel any product identification code.

Second, Representative Wexler offered an amendment, which the Committee adopted by voice vote, to protect the act of legitimate repackaging of goods for resale. More specifically, this exclusion states that a distributor may (1) remove a product from a shipping container and place the product in another shipping container for

¹ 15 U.S.C. § 1051, *et seq.*

resale in a quantity different from that originally provided by the manufacturer, or (2) replace a damaged shipping container, so long as the product retains its original identification code without any obstruction or alteration. In addition, the distributor must be registered with all applicable state and federal agencies; comply with any applicable state and federal laws and regulations; and not engage in repackaging that results in violations of the Federal Food, Drug, and Cosmetic Act or other applicable law.

Section Two also enumerates civil remedies for persons harmed by a third party who indulges in the conduct proscribed by the bill. An injured party is given the right to bring a suit for damages in the appropriate U.S. District Court. In such an action, the court may grant injunctive relief against a defendant and impound those goods under the custody or control of the defendant. As part of a final judgment, a court could order the destruction of the goods, and, if the plaintiff consents, donate the goods to charity.

The section further prescribes compensatory and statutory damages available to an aggrieved plaintiff. These include actual damages, as well as any profits resulting from a violation that were not taken into account when computing actual damages. In lieu of such an award, a plaintiff may opt for statutory damages defined in the following amounts: (1) not more than \$500 and not more than \$100,000 with respect to each type of goods involved in a violation; and (2) not less than \$5,000 and not more than \$1,000,000 with respect to each type of goods involved in a violation which threatens the health and safety of the public as determined by the court.

As noted, the Subcommittee on Courts and Intellectual Property passed amendments *en bloc*, which, among other things, created an innocent infringer exception to the bill. Pursuant to this provision, a court in its discretion may reduce or remit the total award of damages in any case in which the violator sustains the burden of proving (and the court finds) that the violator was not aware and had no reason to believe that the acts of the violator constituted a violation.

Attorneys's fees are also recoverable under the bill, and a court may award treble damages in any case in which a violation occurs within three years of a final judgment in a previous case.

The statute of limitations for bringing these actions is no later than three years after the date on which the claimant discovered the violation.

Finally, Section Two authorizes the Attorney General to enforce the provisions of the section.

Section Three. Criminal Penalties. Section Three prescribes criminal penalties for violations occurring under new § 43A of the Lanham Act.² Any person who willfully violates the new section shall—

1. be fined under Title 18 of the U.S. Code, imprisoned not more than one year, or both;
2. if the total retail value of the goods involved in the violation is greater than \$5,000, be fined under Title 18, imprisoned not more than five years, or both;

²*Id.*

3. if the person acts with reckless disregard, thereby posing a risk to public health and safety, and manifests extreme indifference to such risk, and the violation threatens the public health and safety, be fined under Title 18, imprisoned not more than 10 years , or both;

4. if the person acts with reckless disregard for the risk that another person will be placed in danger of death or bodily injury and under circumstances manifesting extreme difference to such risk and (a) serious bodily injury results, be fined under Title 18, imprisoned not more than 20 years, or both; or (b) death of an individual results, be fined under Title 18, imprisoned for any term of years or for life, or both; and

5. with respect to a second or any subsequent violation, be subject to twice the maximum term of imprisonment that would otherwise be imposed under this subsection of the bill, fined under Title 18, or both.

Section Three also expounds upon the authority of a U.S. District Court to offer injunctive relief, and to impound, destroy, or donate tainted goods to charity.

Section Four: Attorney General Reporting Requirements. Section Four authorizes the Attorney General to add “criminal tampering with product identification code” as a new category of federal cases, the status of which are annually reported to Congress for review.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

ACT OF JULY 5, 1946

(Commonly referred to as the “Lanham Act” and “Trademark Act of 1946”)

AN ACT To provide for the registration and protection of trade-marks used in commerce, to carry out the provisions of certain international conventions, and for other purposes.

* * * * *

TITLE VIII—FALSE DESIGNATIONS OF ORIGIN, FALSE DESCRIPTIONS, [AND DILUTION] *DILUTION*, AND ADULTERATION OF *PRODUCT CODES* FORBIDDEN

* * * * *

UNAUTHORIZED MODIFICATIONS OF *PRODUCT IDENTIFICATION CODES*

SEC. 43A. (a) DEFINITIONS.—In this section—

(1) the term “consumer”—

(A) means—

(i) the ultimate user or purchaser of a good; or

(ii) any hotel, restaurant, or other provider of services that must remove or alter the container, label, or

packaging of a good in order to make the good available to the ultimate user or purchaser; and

(B) does not include any retailer or other distributor who acquires a good for resale;

(2) the term “good” means any article, product, or commodity that is customarily produced or distributed for sale, rental, or licensing in interstate or foreign commerce, and any container, packaging, label, or component thereof;

(3) the term “manufacturer” includes the original manufacturer of a good and a duly appointed agent or representative of that manufacturer acting within the scope of its agency or representation;

(4) the term “product identification code”—

(A) includes any number, letter, symbol, marking, date (including an expiration date), code, software, or other technology that is affixed to or embedded in any good, by which the manufacturer of the good may trace the good back to a particular production lot or batch or date of removal, or otherwise identify the source of the good, the date of manufacture, the date of expiration, or other comparable critical data; and

(B) does not include copyright management information conveyed in connection with copies or phonorecords of a copyrighted work or any performance or display of a copyrighted work;

(5) the term “Universal Product Code” refers to the multidigit bar code and number representing goods in retail applications; and

(6) the term “value” means the face, par, or market value, whichever is the greatest.

(b) PROHIBITED ACTS.—Except as otherwise authorized by Federal law, it shall be unlawful for any person, other than the consumer or the manufacturer of a good, knowingly and without authorization of the manufacturer—

(1) to directly or indirectly alter, conceal, remove, obliterate, deface, strip, or peel any product identification code affixed to or embedded in that good;

(2) to directly or indirectly affix or embed a product identification code to or in that good which is intended by the manufacturer for a different good, such that the code no longer accurately identifies the source of the good;

(3) to directly or indirectly affix to or embed in that good any number, letter, symbol, marking, date, code, or other technology intended to simulate a product identification code; or

(4) to import, export, sell, distribute, or broker that good, the product identification code for which has been altered, concealed, removed, obliterated, defaced, stripped, peeled, affixed, or embedded in violation of paragraph (1) or (2), or that bears an unauthorized number, letter, symbol, marking, date, or other code in violation of paragraph (3).

(c) APPLICABILITY.—The prohibitions set forth in subsection (b) shall apply to product identification codes (or simulated product identification codes in a case to which subsection (b)(3) applies) af-

fixed to, or embedded in, any good held for sale or distribution in interstate or foreign commerce or after shipment therein.

(d) EXCLUSION.—

(1) UPC CODES.—Nothing in this section prohibits a retailer from affixing a Universal Product Code or other electronic pricing code to a good if that code does not (or can be removed so as not to) permanently alter, conceal, remove, obliterate, deface, strip, or peel any product identification code.

(2) REPACKAGING FOR RESALE.—(A) Nothing in this section prohibits a distributor from removing an article, product, or commodity of retail sale from a shipping container and placing such article, product, or commodity in another shipping container for purpose of resale in a quantity different from the quantity originally provided by the manufacturer or from replacing a damaged shipping container, if, except as provided in paragraph (1), such article, product, or commodity of retail sale retains its original product identification code, without any obstruction or alteration, and if—

(i) such distributor is registered with all applicable Federal and State agencies;

(ii) such distributor repackages the article, product, or commodity in full compliance with all applicable State and Federal laws and regulations; and

(iii) the act of repackaging does not result in a prohibited act under section 301 of the Federal Food, Drug, and Cosmetic Act or violate any other applicable State or Federal law or regulation.

(B) As used in this paragraph, the term “shipping container” means—

(i) a container or wrapping used for the transportation of any article, product, or commodity in bulk or in quantity to manufacturers, packers, or processors, or to wholesale or retail distributors thereof; and

(ii) containers or wrappings used by retailers to ship or deliver any article, product, or commodity to retail customers, if such containers and wrappings bear no printed matter pertaining to any particular article, product, or commodity.

(e) CRIMINAL PENALTIES.—Any person who willfully violates this section shall be punished as provided in section 1365A of title 18.

(f) CIVIL REMEDIES.—

(1) IN GENERAL.—Any person who is injured by a violation of this section, or threatened with such injury, may bring a civil action in an appropriate United States district court against the alleged violator.

(2) INJUNCTIONS AND IMPOUNDING AND DISPOSITION OF GOODS.—In any action under paragraph (1), the court may—

(A) grant 1 or more temporary, preliminary, or permanent injunctions on such terms as the court determines to be reasonable to prevent or restrain the violation;

(B) at any time while the action is pending, order the impounding, on such terms as the court determines to be reasonable, of any good that is in the custody or control of

the alleged violator and that the court has reasonable cause to believe was involved in the violation; and

(C) as part of a final judgment or decree—

(i) order the destruction of any good involved in the violation that is in the custody or control of the violator or that has been impounded under subparagraph (B); or

(ii) if the court determines that any good impounded under subparagraph (B) is not unsafe or a hazard to health, dispose of the good by delivery to such Federal, State, or local government agencies as, in the opinion of the court, have a need for such good, or by gift to such charitable or nonprofit institutions as, in the opinion of the court, have a need for such good, if such disposition would not otherwise be in violation of law, and if the manufacturer consents to such disposition and is given the opportunity to reapply a product identification code to the good.

(3) DAMAGES.—

(A) IN GENERAL.—Subject to subparagraph (B), in any action under paragraph (1), the plaintiff shall be entitled to recover the actual damages suffered by the plaintiff as a result of the violation, and any profits of the violator that are attributable to the violation and are not taken into account in computing the actual damages. In establishing the violator's profits, the plaintiff shall be required to present proof only of the violator's sales, and the violator shall be required to prove all elements of cost or deduction claimed.

(B) STATUTORY DAMAGES.—In any action under paragraph (1), the plaintiff may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits described in subparagraph (A), an award of statutory damages for any violation under this section in an amount equal to—

(i) not less than \$500 and not more than \$100,000, with respect to each type of goods involved in the violation; and

(ii) if the violation threatens the health and safety of the public, as determined by the court, not less than \$5,000 and not more than \$1,000,000, with respect to each type of goods involved in the violation.

(4) COSTS AND ATTORNEY'S FEES.—In any action under paragraph (1)—

(A) in addition to any damages recovered under paragraph (3), a prevailing plaintiff may recover the full costs of the action; and

(B) the court, in its discretion, may also award reasonable attorney fees to the prevailing party.

(5) REPEAT VIOLATIONS.—

(A) TREBLE DAMAGES.—In any case in which a person violates this section within 3 years after the date on which a final judgment was entered against that person for a previous violation of this section, the court, in an action brought under this subsection, may increase the award of

damages for the later violation to not more than 3 times the amount that would otherwise be awarded under paragraph (3), as the court considers appropriate.

(B) BURDEN OF PROOF.—A plaintiff that seeks damages as described in subparagraph (A) shall bear the burden of proving the existence of the earlier violation.

(6) LIMITATIONS ON ACTIONS.—No civil action may be commenced under this section later than 3 years after the date on which the claimant discovers the violation.

(7) INNOCENT VIOLATIONS.—In any action under paragraph (1), the court in its discretion may reduce or remit the total award of damages in any case in which the violator sustains the burden of proving, and the court finds, that the violator was not aware and had no reason to believe that the acts of the violator constituted a violation.

(g) ENFORCEMENT.—The Attorney General shall enforce this section.

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TITLE 18, UNITED STATES CODE

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PART I—CRIMES

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CHAPTER 65—MALICIOUS MISCHIEF

Sec.

1361. Government property or contracts.

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1365A. Unauthorized modification of product identification codes.

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§ 1365A. Unauthorized modification of product identification codes

(a) CRIMINAL PENALTIES.—Any person who willfully violates section 43A of the Act of July 5, 1946 (commonly referred to as the “Trademark Act of 1946”) shall—

(1) be fined under this title, imprisoned not more than 1 year, or both;

(2) if the total retail value of the good or goods involved in the violation is greater than \$5,000, be fined under this title, imprisoned not more than 5 years, or both;

(3) if the person acts with reckless disregard for the risk that the health or safety of the public would be threatened and under circumstances manifesting extreme indifference to such risk, and the violation threatens the health or safety of the public, be fined under this title, imprisoned not more than 10 years, or both;

(4) if the person acts with reckless disregard for the risk that another person will be placed in danger of death or bodily

injury and under circumstances manifesting extreme indifference to such risk and—

(A) serious bodily injury to any individual results, be fined under this title, imprisoned not more than 20 years, or both; or

(B) death of an individual results, be fined under this title, imprisoned for any term of years or for life, or both; and

(5) with respect to any second or subsequent violation, be subject to twice the maximum term of imprisonment that would otherwise be imposed under this subsection, fined under this title, or both.

(b) INJUNCTIONS AND IMPOUNDING, FORFEITURE, AND DISPOSITION OF GOODS.—

(1) INJUNCTIONS AND IMPOUNDING.—In any prosecution under this section, upon motion of the United States, the court may—

(A) grant 1 or more temporary, preliminary, or permanent injunctions on such terms as the court determines to be reasonable to prevent or restrain the alleged violation; and

(B) at any time during the proceedings, order the impounding, on such terms as the court determines to be reasonable, of any good that is in the custody or control of the defendant and that the court has reasonable cause to believe was involved in the violation.

(2) FORFEITURE AND DISPOSITION OF GOODS.—Upon conviction of any person of a violation of this section, the court shall—

(A) order the forfeiture of any good involved in the violation that is in the custody or control of the defendant or that has been impounded under paragraph (1)(B); and

(B) either—

(i) order the destruction of each good forfeited under subparagraph (A); or

(ii) if the court determines that any good forfeited under subparagraph (A) is not unsafe or a hazard to health, dispose of the good by delivery to such Federal, State, or local government agencies as, in the opinion of the court, have a need for such good, or by gift to such charitable or nonprofit institutions as, in the opinion of the court, have a need for such good, if such disposition would not otherwise be in violation of law and if the manufacturer consents to such disposition and is given the opportunity to reapply a product identification code to the good.

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CHAPTER 113—STOLEN PROPERTY

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§ 2320. Trafficking in counterfeit goods or services

(a) * * *

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(f) Beginning with the first year after the date of enactment of this subsection, the Attorney General shall include in the report of the Attorney General to Congress on the business of the Department of Justice prepared pursuant to section 522 of title 28, an accounting, on a district by district basis, of the following with respect to all actions taken by the Department of Justice that involve *unauthorized modification of product identification codes under section 1365A*, trafficking in counterfeit labels for phonorecords, copies of computer programs or computer program documentation or packaging, copies of motion pictures or other audiovisual works (as defined in section 2318 of title 18), criminal infringement of copyrights (as defined in section 2319 of title 18), unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances (as defined in section 2319A of title 18), or trafficking in goods or services bearing counterfeit marks (as defined in section 2320 of title 18):

(1) * * *

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(4) The number and outcome, including settlements, sentences, recoveries, and penalties, of all prosecutions brought under sections 1365A, 2318, 2319, 2319A, and 2320 of title 18.

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DISSENTING VIEWS OF HON. CHARLES E. SCHUMER ON H.R. 3891

I strongly oppose H.R. 3891 as presently drafted, and I believe a majority of the Congress will oppose it once its effects on the retail sector become widely understood. In my view, this legislation would be devastating to consumers seeking quality products at discount prices.

H.R. 3891 will have a substantial negative impact on the U.S. economy. It will preclude millions of dollars in legitimate sales. Numerous products presently available at discount prices will disappear from discount shelves. Consumer prices will rise and jobs will be lost among retailers, distributors and importers.

Furthermore, H.R. 3891 will place additional burdens on law enforcement and on the courts. The legislation, however, provides no funding for these additional enforcement responsibilities.

1. H.R. 3891 DOES NOTHING TO STOP COUNTERFEIT GOODS.

H.R. 3891 is apparently intended to eliminate counterfeit goods from the marketplace. I support this objective, but find nothing in the bill to further that goal. Despite the fact that it is named the "Trademark Anticounterfeiting Act," this legislation does not prohibit or discourage the manufacture, sale or distribution of counterfeit goods, nor does it punish the use of phony product identification codes. Instead, it prohibits the removal of genuine product identification codes from products. Because the bill deals only with the removal of *genuine* manufacturer codes, by definition it can have no effect on stopping or discouraging counterfeit goods.

2. H.R. 3891 IS DIRECTED AT STOPPING SALES BY DISCOUNT RETAILERS

The true effect of H.R. 3891 will be to limit the distribution of genuine goods in discount stores. Brand-name products are often sold in what is called the “parallel market” or the “gray market.” This legitimacy of this multi-billion dollar market, which encompasses a wide variety of products (such as cameras, clothing, electronic products, perfume and watches) has been upheld by the federal courts on numerous occasions—most recently by the Supreme Court in March of this year.¹ The parallel market results in savings to American consumers amounting to billions of dollars a year.²

Even though the parallel market is completely legal and benefits consumers, some product manufacturers appear to believe that the parallel market is not in their interest. In an effort to keep their products out of discount stores, some manufacturers place codes on the products. These codes enable the manufacturer to trace the chain of distribution of a particular item; the manufacturer can then retaliate against distributors that sell goods into the parallel market.

The ultimate goal of these manufacturers is to control the final retail price of their products. When done explicitly, this practice, known as “resale price maintenance,” has been plainly illegal under antitrust laws since 1908. The reason resale price maintenance is illegal is because we want retail outlets to compete on price—that competition yields the best deals for consumers. Manufacturers’ use of product identification codes to cut off access to the parallel market is simply resale price maintenance in disguise. We should not change federal law to assist manufacturers in this anti-consumer practice—yet that is precisely what H.R. 3891 would do.

3. H.R. 3891 IS FAR TOO BROAD

The proponents of this bill have claimed that it will protect consumers by assisting in the recall of defective merchandise. If this is the purpose, the bill can easily be limited to products which implicate real public health and safety concerns, such as food, medicine and products for children (like car seats and baby pajamas). Alternatively (or in addition), parallel market resellers could be given some of the responsibility for enabling recalls. Both of these ideas are worth exploring.

But instead of these sensible, targeted approaches, the bill as written is astonishingly sweeping. It covers *any* product sold in the U.S.—from books to clothing to furniture. No reason whatever has

¹See *Quality King Distributors, Inc. v. Lanza Research Int’l, Inc.*, 140 L. Ed. 2d 254 (1998) (rejecting challenge to parallel market under copyright law); see also *Kmart v. Cartier*, 486 U.S. 281 (1987) (rejecting challenge to parallel market under trademark law).

²See, e.g., Weigh Demanding Mandate for Imports, 62 *Chain Store Age Executive* 66 (Nov. 1986) (“[C]onsumers realize billions of dollars savings annually through the purchase of . . . ‘parallel imports.’”); There are Still Many Gray Areas with Parallel Importing, 31 *Discount Store News*, No. 10, at 16 (May 18, 1992) (“By preventing foreign manufacturers from monopolizing the distribution of their products to U.S. retailers, defenders of parallel or ‘gray market’ imports were responsible for increasing the buying power of U.S. consumers by billions of dollars over the past decade.”); AGMC Takes ‘Gray Market’ Offensive, 23 *Discount Store News*, 3 (Nov. 12, 1984); “[Association of General Merchandise Chains] conceded that ‘parallel imports constitute at retail a multi-billion dollar industry.’”; K-Mart Asks the Supreme Court to Preserve the Gray Market, 25 *Discount Store News* 1 (Oct. 27, 1986) (“[Kmart] warned that ‘American consumers will annually pay hundreds of millions of dollars in fixed retail price overcharges to foreign manufacturers’ if the [parallel market] is closed.”).

been articulated for including these everyday, non-danger-threatening products within the scope of the bill.

The legislation also defines product identification codes very broadly to include “any number, letter, symbol, mark, date (including an expiration date), code, software or other technology” but fails to specify the quantity, placement or format of the product identification codes. As a result, the reseller will have no way to determine upon looking at a product which codes or markings constitute a product identification code. This will create a huge burden on the legitimate reseller to either reproduce every code or mark on a product in repackaging the product or to run the risk of being charged for civil and criminal violations. The language of H.R. 3891 is far too vague and it needs to be refined.

In addition, the bill addresses a problem that is already addressed by other, more comprehensive statutes. Numerous laws already regulate the marking of products which are of special concern for public safety. Some of these laws include:

Federal Food, Drug & Cosmetic Act (21 U.S.C. §§ 301 et seq.) (particularly sections 331(adulteration and misbranding), 333 (provides for seizure of adulterated drugs or cosmetics), 342 (false or misleading labels), 350a (regulates infant formula), 351–352 (adulterated or misbranded drugs or devices), 361–362 (adulterated or misbranded cosmetics).)

Federal Meat Inspection Act (21 U.S.C. §§ 601 et. Seq.) Civil and criminal penalties for misbranding or adulteration of food-stuff.

Tariff Act of 1930 (19 U.S.C. §§ 1300 et seq.) Marking of imported articles.

Lanham Act (15 U.S.C. §§ 1051 et seq.) Provides protection against unauthorized reproduction or imitation of copyrighted works.

Anticounterfeiting Consumer Protection Consumer Protection Act of 1996 (15 U.S.C. §§ 1116–1117; 18 U.S.C. § 2320) Allows use of Racketeer Influenced and Corrupt Organizations (RICO) remedies against counterfeiters.

Consumer Product Safety Act (15 U.S.C. §§ 2051 et seq.) Particularly § 2063 (governs consumer safety certification and labeling).

4. H.R. 3891 BURDENS PUBLIC RESOURCES

Finally, H.R. 3891 would impose broad new burdens on law enforcement and the judiciary. By failing to provide a transition period, this law would render billions of dollars worth of merchandise illegal overnight. The avalanche of litigation that is likely to follow between manufacturers and resellers and between retailers and their suppliers is likely to be enormous due to the broad impact of this bill on the U.S. marketplace.

Further, the legislation criminalizes the act of decoding products and mandates the seizure and destruction of these decoded products. Presumably, the burden of investigating and prosecuting such acts of decoding will fall to our law enforcement agencies. No funding has been allocated to defray the extra burden on these agencies or to employ additional personnel.

CONCLUSION

By ordering H.R. 3891 reported in its present form, the majority has failed to give adequate hearing to the many parties that will be affected by this bill. In its present form, the bill will result in serious unforeseen hardships to consumers and businesses alike.

I strongly urge that this bill be amended to avoid the negative consequences I have described. If the bill is meant to avoid counterfeiting, then it should not apply to genuine products. If the bill seeks to address the issue of consumer protection in recalls, then it should do so without granting a limited group of product manufacturers broad anti-competitive powers.

CHARLES E. SCHUMER.

